

**Commonwealth of Massachusetts
Department of Telecommunications and Energy**

Boston Gas Company)
d/b/a/KeySpan Energy)
Delivery New England)

D.T.E. 03-40

Reply Brief of Associated Industries of Massachusetts

I. Introduction

On April 16, 2003, Boston Gas Company (d/b/a KeySpan Energy Delivery New England, the Company) filed with the Department of Telecommunications and Energy (the Department) a request for an increase of \$61.3 million increase in distribution revenues combined with a proposed five-year price-cap plan. Associated Industries of Massachusetts (A.I.M.) was granted intervenor status in the proceeding. A.I.M. did not file an initial brief, however in accordance with the established procedural schedule hereby submits this reply brief.

Associated Industries of Massachusetts was established in 1915 and is the largest non-profit, non-partisan association of Massachusetts employers representing over 7,500 businesses in the Commonwealth. A.I.M. has long been involved in energy issues on a local, regional, and national level. A.I.M. offers the following comments for consideration by the Department in five areas.

Proposed Change in Rate Design for Larger Customers

Boston Gas is proposing to modify rate design for larger customers (specifically G 44 and G 54). The Company is proposing a change from the present demand charge basis to a volumetric charge basis that would result in significant short term increases for these customer classes, without demonstrating a reasonable rationale for the change. In pre-filed testimony by the Company expert it was stated "...the Company will limit the impact of this base-rate increase on the average customer in each rate class to no more than a 10 percent increase as compared to the customer's 2002 bill." (Exhibit KEDNE/JFB-1, page 3 of 55, lines 15 – 17) However, it has been estimated that increases for these customer classes using the proposed volumetric changes would be well in excess of the 10 percent stated in the Company's pre-filed testimony and would result in rate shock and an unfair burden to this group of customers. A.I.M. recommends that the Department not support the proposed modification in rate design.

Proposed Rate Recovery for Research and Development

Boston Gas is proposing a recovery in rates of \$1.4 million dollars annually for research and development. Funds were previously paid through a FERC imposed interstate pipe-line charge to local distribution companies. While A.I.M. recognizes the importance and the value of research and development in the natural gas industry, benefits should be realized state wide for all consumers of both gas and electricity, particularly given the substantial reliance in this region on natural gas for electric generation. Therefore, a single company program is not appropriate. Finally, the company offers no formal plan for spending of the funds collected. A.I.M. would consider supporting a state wide, comprehensive plan for research and development supported financially by a generic distribution charge, but recommends that the Department not support the local distribution charge proposed by Boston Gas at this time.

Weather Stabilization Clause

In February of 2003, A.I.M., Massachusetts Taxpayers Foundation, and the Greater Boston Chamber produced a report detailing high costs of doing business in Massachusetts. One of the cost drivers identified in the report was energy. Businesses required, often because of environmental permitting, to use natural gas in their processes and have few options available to mitigate volatile price swings over time. Boston Gas is proposing a weather stabilization clause that would benefit customers by smoothing out price swings. A.I.M. asks the Department to consider such proposals that would assist businesses in addressing volatile price swings.

Consumer Dividend

Boston Gas has filed for a reduction in the consumer dividend from .5%, established in the Company's previous PBR plan, to .015%. In pre-filed testimony (Exhibit KEDNE/LRK-1) the Company stated that lower consumer dividends are warranted for companies that are good cost performers. Although the Company has demonstrated gains in efficiency and productivity, these efficiencies do not qualify for a reduction in the consumer dividend. Recognizing that the Company will need to work harder to achieve efficiencies throughout the proposed five-year PBR plan, A.I.M. does not support an increase in the consumer dividend, but rather urges that the same level approved by the Department in the last PBR filing of .5% should be maintained. Continuation at this level will insure that the Company continues to strive for increased efficiencies that will provide long-term benefits for all ratepayers.

Special Contracts

A.I.M. supports flexibility for Boston Gas to enter into special contracts with customers that meet specific criteria approved by the Department. In the Company's response to an information request from the Attorney General's Office (Information

Request AG –23-33), the Company states that each special contract rate recovers 100% of any capital investments that are made, and each contract is filed with a marginal cost analysis for Department approval. As a business, in order to remain competitive, the Company needs to have the ability to negotiate special contracts with customers that meet the Department criteria and have other fuel choices.

Rate of Return on Common Equity

According to pre-filed testimony by Mr. Moul (Exhibit KEDNE/PRM-1, page 59, lines 6 through 9) the Company is proposing that a reasonable rate of return on common equity is 12.8%. A.I.M. does not support the Company's claim that Boston Gas has the risk characteristics for return, particularly when compared to recent decisions for other smaller companies. The Departments final ruling for Fitchburg Gas and Electric came in at 10% and Berkshire Gas at 10.5%. A reasonable return for Boston Gas should be the same as the Departments allocation for Berkshire, 10.5%. This figure will permit the appropriate compensation for the Company's risk, while allowing the Company the credit quality needed to compete in the capital markets.

Finally, in an effort to provide ongoing feedback to the Department and the Company, A.I.M. is surveying our members through our energy management council. The survey covers a number of issues, including billing and customer service. To date, there has been no complaints in either area, although the survey is continuing.

Respectfully submitted for Associated Industries of Massachusetts by:

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